

(e) MCC shall deliver a certificate signed and dated by the Principal Representative of MCC that:

(i) Certifies that MCC has completed its domestic requirements for this Compact to enter into force; and

(ii) Attaches a written statement as to the incumbency and specimen signature of the Principal Representative and each Additional Representative of MCC executing any document under this Compact such written statement to be signed by a duly authorized official of the Government other than the Principal Representative or any such Additional Representative.

Section 4.2 Conditions Precedent to MCC Disbursements or Re-Disbursements. Prior to, and as condition precedent to, any MCC Disbursement or Re-Disbursement, the Government shall satisfy, or ensure the satisfaction of, all applicable conditions precedent in the Disbursement Agreement.

ARTICLE V. FINAL CLAUSES

Section 5.1 Communications. Unless otherwise expressly stated in this Compact or otherwise agreed in writing by the Parties, any notice, certificate, request, report, document or other communication required, permitted, or submitted by either Party to the other under this Compact shall be: (a) in writing; (b) in English; and (c) deemed duly given: (i) upon personal delivery to the Party to be notified; (ii) when sent by confirmed facsimile or electronic mail, if sent during normal business hours of the recipient Party, if not, then on the next business day; or (iii) two (2) business days after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt to the Party to be notified at the address indicated below, or at such other address as such Party may designate:

To MCC:

Millennium Challenge Corporation

Attention: Vice President for Country Relations

(with a copy to the Vice President and General Counsel)

875 Fifteenth Street, N.W.

Washington, D.C. 20005

United States of America

Facsimile: (202) 521-3700

Phone: (202) 521-3600

Email: VPCountryRelations@mcc.gov (Vice President for Country Relations);

VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

Ministry of Finance and Planning

Attention: Minister of Finance and Planning

Avenida Amilcar Cabral, CP30

Praia, Republic of Cape Verde.
Facsimile: (238) 261-3897
Phone: (238) 260-7644
E-mail: Ministro.Financas.Planeamento@gov1.gov.cv

Notwithstanding the foregoing, any audit report delivered pursuant to Section 3.8, if delivered by facsimile or electronic mail, shall be followed by an original in overnight express mail. This Section 5.1 shall not apply to the exchange of letters contemplated in Section 1.3 or any amendments under Section 5.3.

Section 5.2 Representatives. Unless otherwise agreed in writing by the Parties, for all purposes relevant to this Compact, the Government shall be represented by the individual holding the position of, or acting as, Minister of Finance and Planning of the Republic of Cape Verde, and MCC shall be represented by the individual holding the position of, or acting as, Vice President for Country Relations (each, a "*Principal Representative*"), each of whom, by written notice to the other Party, may designate one or more additional representatives (each, an "*Additional Representative*") for all purposes other than signing amendments to this Compact. The names of the Principal Representative and any Additional Representative of each of the Parties shall be provided, with specimen signatures, to the other Party, and the Parties may accept as duly authorized any instrument signed by such representatives relating to the implementation of this Compact, until receipt of written notice of revocation of their authority. A Party may change its Principal Representative to a new representative of equivalent or higher rank upon written notice to the other Party, which notice shall include the specimen signature of the new Principal Representative.

Section 5.3 Amendments. The Parties may amend this Compact only by a written agreement signed by the Principal Representatives of the Parties.

Section 5.4 Termination; Suspension.

(a) Subject to Section 2.5 and paragraphs (e) through (h) of this Section 5.4, either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days' written notice.

(b) Notwithstanding any other provision of this Compact, including Section 2.1, or any Supplemental Agreement between the Parties, MCC may suspend or terminate this Compact or MCC Funding, in whole or in part, and any obligation or sub-obligation related thereto, upon giving the Government written notice, if MCC determines, in its sole discretion, that:

(i) Any use or proposed use of MCC Funding or Program Assets or continued implementation of the Compact would be in violation of applicable law or U.S. Government policy, whether now or hereafter in effect;

(ii) The Government, any Provider, or any other third party receiving MCC Funding or using Program Assets is engaged in activities that are contrary to the national security interests of the United States;

(iii) The Government or any Permitted Designee has committed an act or omission or an event has occurred that would render the Republic of Cape Verde ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as

amended (22 U.S.C 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(iv) The Government or any Permitted Designee has engaged in a pattern of actions or omissions inconsistent with the MCA Eligibility Criteria, or there has occurred a significant decline in the performance of the Republic of Cape Verde on one or more of the eligibility indicators contained therein;

(v) The Government or any Provider has materially breached one or more of its assurances or any covenants, obligations or responsibilities under this Compact or any Supplemental Agreement;

(vi) An audit, review, report or any other document or other evidence reveals that actual expenditures for the Program or any Project or Project Activity were greater than the projected expenditure for such activities identified in the applicable Detailed Financial Plan or are projected to be greater than projected expenditures for such activities;

(vii) If the Government (A) materially reallocates or reduces the allocation in its national budget or any other Government budget of the normal and expected resources that the Government would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein, (B) fails to contribute or provide the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact, or (C) fails to pay any of its obligations as required under this Compact or any Supplemental Agreement, including such obligations which shall be paid solely out of national funds;

(viii) If the Government, any Provider, or any other third party receiving MCC Funding or using Program Assets, or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantee, sub-grantee, representatives or agents, is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking;

(ix) Any MCC Funding or Program Assets are applied, directly or indirectly, to the provision of resources and support to, individuals and organizations associated with terrorism, sex trafficking or prostitution;

(x) An event or condition of any character has occurred that: (A) materially and adversely affects, or is likely to materially and adversely affect, the ability of the Government or any other party to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact or any Supplemental Agreement or to perform its obligations under or in furtherance of this Compact or any Supplemental Agreement or to exercise its rights thereunder; (B) makes it improbable that the Objectives will be achieved during the Compact Term; (C) materially and adversely affects the Program Assets or any Permitted Account or (D) constitutes misconduct injurious to MCC, or constitutes a fraud or a felony, by the Government, any Government Affiliate, Permitted Designee or Provider, or any officer, director, employee, agent, representative, Affiliate, contractor, grantee, subcontractor or sub-grantee of any of the foregoing;

(xi) The Government or any Permitted Designee or Provider has taken any action or omission or engaged in any activity in violation of, or inconsistent with, the

requirements of this Compact or any Supplemental Agreement to which the Government or any Permitted Designee or Provider is a party; or

(xii) There has occurred a failure to meet a condition precedent or series of conditions precedent to or any other requirements or conditions in connection with MCC Disbursement as set out in and in accordance with any Supplemental Agreement between the Parties.

(c) MCC may reinstate any suspended or terminated MCC Funding under this Compact or any Supplemental Agreement if MCC determines, in its sole discretion, that the Government or other relevant party has demonstrated a commitment to correcting each condition for which MCC Funding was suspended or terminated.

(d) The authority to suspend or terminate this Compact or any MCC Funding under this Section 5.4 includes the authority to suspend or terminate any obligations or sub-obligations relating to MCC Funding under any Supplemental Agreement without any liability to MCC whatsoever.

(e) All MCC Funding shall terminate upon expiration or termination of the Compact Term; *provided, however*, reasonable expenditures for goods, services and works that are properly incurred under or in furtherance of this Compact before expiration or termination of the Compact Term may be paid from MCC Funding, provided that the request for such payment is properly submitted within sixty (60) days after such expiration or termination.

(f) Except for payments which the Parties are committed to make under noncancelable commitments entered into with third parties before such suspension or termination, the suspension or termination of this Compact or any Supplemental Agreement, in whole or in part, shall suspend, for the period of the suspension, or terminate, or ensure the suspension or termination of, as applicable, any obligation or sub-obligation of the Parties to provide financial or other resources under this Compact or any Supplemental Agreement, or to the suspended or terminated portion of this Compact or such Supplemental Agreement, as applicable. In the event of such suspension or termination, the Government shall use its best efforts to suspend or terminate, or ensure the suspension or termination of, as applicable, all such noncancelable commitments related to the suspended or terminated MCC Funding. Any portion of this Compact or any such Supplemental Agreement that is not suspended or terminated shall remain in full force and effect.

(g) Upon the full or partial suspension or termination of this Compact or any MCC Funding, MCC may, at its expense, direct that title to Program Assets be transferred to MCC if such Program Assets are in a deliverable state; *provided*, for any Program Asset(s) partially purchased or funded (directly or indirectly) by MCC Funding, the Government shall reimburse to a U.S. Government account designated by MCC the cash equivalent of the portion of the value of such Program Asset(s), such value as determined by MCC.

(h) Prior to the expiration of this Compact or upon termination of this Compact, the Parties shall consult in good faith with a view to reaching an agreement in writing on (i) the post-Compact Term treatment of MCA-Cape Verde, (ii) the process for ensuring the refunds of MCC Disbursements that have not yet been released from a Permitted Account through a valid Re-Disbursement or otherwise committed in accordance with Section 5.4(e), or (iii) any other matter related to the winding up of the Program and this Compact.

Section 5.5 Privileges and Immunities. MCC is an agency of the Government of the United States of America and its personnel assigned to the Republic of Cape Verde will be notified pursuant to the Vienna Convention on Diplomatic Relations as members of the mission of the Embassy of the United States of America. The Government shall ensure that any personnel of MCC so notified, *including individuals detailed to or contracted by MCC, and the members of the families of such personnel*, while such personnel are performing duties in the Republic of Cape Verde, shall enjoy the privileges and immunities that are enjoyed by a member of the United States Foreign Service, or the family of a member of the United States Foreign Service so notified, as appropriate, of comparable rank and salary of such personnel, if such personnel or the members of the families of such personnel are not a national of, or permanently resident in, the Republic of Cape Verde.

Section 5.6 Attachments. Any annex, schedule, exhibit, table, appendix or other attachment expressly attached hereto (collectively, the "*Attachments*") is incorporated herein by reference and shall constitute an integral part of this Compact.

Section 5.7 Inconsistencies.

(a) Conflicts or inconsistencies between any parts of this Compact shall be resolved by applying the following descending order of precedence:

- (i) Articles I through V
- (ii) Any Attachments

(b) In the event of any conflict or inconsistency between this Compact and any Supplemental Agreement between the Parties, the terms of this Compact shall prevail. In the event of any conflict or inconsistency between any Supplemental Agreement between the Parties and any other Supplemental Agreement, the terms of the Supplemental Agreement between the Parties shall prevail. In the event of any conflict or inconsistency between Supplemental Agreements between any parties, the terms of a more recently executed Supplemental Agreement between such parties shall take precedence over a previously executed Supplemental Agreement between such parties. In the event of any inconsistency between a Supplemental Agreement between the Parties and any component of the Implementation Plan, the terms of the relevant Supplemental Agreement shall prevail.

Section 5.8 Indemnification. The Government shall indemnify and hold MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative (each of MCC and any such persons, an "*MCC Indemnified Party*") harmless from and against, and shall compensate, reimburse and pay such MCC Indemnified Party for, any liability or other damages which (i) are directly or indirectly suffered or incurred by such MCC Indemnified Party, or to which any MCC Indemnified Party may otherwise become subject, regardless of whether or not such damages relate to any third-party claim, and (ii) arise from or as a result of the negligence or willful misconduct of the Government, any Government Affiliate, MCA-Cape Verde or any Permitted Designee, directly or indirectly connected with, any activities (including acts or omissions) undertaken in furtherance of this Compact; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 5.8 and no MCC Funding, Accrued Interest, or Program Asset may be applied by the Government in satisfaction of its obligations under this Section 5.8.

Section 5.9 Headings. The Section and Subsection headings used in this Compact are included for convenience only and are not to be considered in construing or interpreting this Compact.

Section 5.10 Interpretation; Definitions.

(a) Any reference to the term "including" in this Compact shall be deemed to mean "including without limitation" except as expressly provided otherwise.

(b) Any reference to activities undertaken "in furtherance of this Compact" or similar language shall include activities undertaken by the Government, any Government Affiliate, any Permitted Designee, any Provider or any other third party receiving MCC Funding involved in carrying out the purposes of this Compact or any Supplemental Agreement, including their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents, whether pursuant to the terms of this Compact, any Supplemental Agreement or otherwise.

(c) References to "day" or "days" shall be calendar days unless provided otherwise.

(d) The term "*U.S. Government*" shall mean any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.

(e) The term "*Affiliate*" of a party is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence.

(f) The term "*Government Affiliate*" is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government.

(g) References to any Affiliate or Government Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

(h) Any references to "*Supplemental Agreement between the Parties*" shall mean any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.

Section 5.11 Signatures. Other than a signature to this Compact or an amendment to this Compact pursuant to Section 5.3, a signature delivered by facsimile or electronic mail in accordance with Section 5.1 shall be deemed an original signature, and the Parties hereby waive any objection to such signature or to the validity of the underlying document, certificate, notice, instrument or agreement on the basis of the signature's legal effect, validity or enforceability solely because it is in facsimile or electronic form. Such signature shall be accepted by the receiving Party as an original signature and shall be binding on the Party delivering such signature.

Section 5.12 Designation. MCC may designate any Affiliate, agent, or representative to implement, in whole or in part, its obligations, and exercise any of its rights, under this Compact or any Supplemental Agreement between the Parties.

Section 5.13 Survival. Any Government Responsibilities, covenants, or obligations or other responsibilities to be performed by the Government after the Compact Term shall survive the termination or expiration of this Compact and expire in accordance with their respective terms. Notwithstanding the termination or expiration of this Compact, the following provisions shall remain in force: Sections 2.2, 2.3, 2.5, 3.2, 3.3, 3.4, 3.5, 3.8, 3.9 (for one year), 3.12, 5.1, 5.2, 5.4(d), 5.4(e) (for sixty days), 5.4(f), 5.4(g), 5.4(h), 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, this Section 5.13, 5.14, and 5.15.

Section 5.14 Consultation. Either Party may, at any time, request consultations relating to the interpretation or implementation of this Compact or any Supplemental Agreement between the Parties. Such consultations shall begin at the earliest possible date. The request for consultations shall designate a representative for the requesting Party with the authority to enter consultations and the other Party shall endeavor to designate a representative of equal or comparable rank. If such representatives are unable to resolve the matter within 20 days from the commencement of the consultations then each Party shall forward the consultation to the Principal Representative or such other representative of comparable or higher rank. The consultations shall last no longer than 45 days from date of commencement. If the matter is not resolved within such time period, either Party may terminate this Compact pursuant to Section 5.4(a). The Parties shall enter any such consultations guided by the principle of achieving the Compact Goal in a timely and cost-effective manner.

Section 5.15 MCC Status. MCC is a United States government corporation acting on behalf of the United States Government in the implementation of this Compact. As such, MCC has no liability under this Compact, is immune from any action or proceeding arising under or relating to this Compact and the Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to this Compact, MCC is not subject to the jurisdiction of the courts or other body of Cape Verde.

Section 5.16 Language. This Compact is prepared in English and in the event of any ambiguity or conflict between this official English version and any other version translated into any language for the convenience of the Parties, this official English version shall prevail.

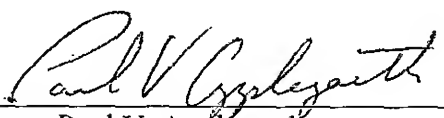
Section 5.17 Publicity, Information and Marking. The Parties shall give appropriate publicity to this Compact as a program to which the United States, through MCC, has contributed, including by posting this Compact, and any amendments thereto, on the MCC website and the MCA-Cape Verde Website, identifying Program activity sites, and marking Program Assets; *provided*, any announcement, press release or statement regarding MCC or the fact that MCC is funding the Program or any other publicity materials referencing MCC, including the publicity described in this Section 5.17, shall be subject to prior approval by MCC and shall be consistent with any instructions provided by MCC from time to time in relevant Implementation Letters. Upon the termination or expiration of this Compact, MCC may request the removal of, and the Government shall, upon such request, remove, or cause the removal of, any such markings and any references to MCC in any publicity materials or on the MCA-Cape Verde Website.

Signature page begins on the next page.

IN WITNESS WHEREOF, the undersigned, duly authorized by their respective governments, have signed this Compact this 4th day of July, 2005 and this Compact shall enter into force in accordance with Section 1.3.

Done at Praia, Cape Verde in the English language.

FOR MILLENNIUM CHALLENGE
CORPORATION, ON BEHALF OF
THE UNITED STATES OF AMERICA


Name: Paul V. Applegarth
Title: Chief Executive Officer

FOR THE GOVERNMENT OF THE
REPUBLIC OF CAPE VERDE

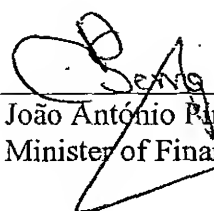

Name: João António Pinto Coelho Serra
Title: Minister of Finance and Planning

EXHIBIT A DEFINITIONS

The following compendium of capitalized terms that are used herein is provided for the convenience of the reader. To the extent that there is a conflict or inconsistency between the definitions in this Exhibit A and the definitions elsewhere in the text of this Compact, the definition elsewhere in this Compact shall prevail over the definition in this Exhibit A.

Accrued Interest is any interest or other earnings on MCC Funding that accrues or are earned.

Act means the Millennium Challenge Act of 2003, as amended.

Additional Representative is a representative as may be designated by a Principal Representative, by written notice, for all purposes other than signing amendments to this Compact.

Affiliate means the affiliate of a party, which is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence. References to Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

AGOA means the Africa Growth and Opportunity Act.

Agribusiness Development Activity is the Project Activity related to agribusiness development services under the Watershed Project described in Section 2(b) of Section 1 of Annex I.

Area(s) means wherever the targeted geographic areas of Cape Verde where certain activities of the Program will be undertaken.

ASA means the Airport and Aviation Security Company.

Attachments are any annex, schedule, exhibit, table, appendix or other attachment expressly attached to this Compact.

Audit Guidelines means the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the Inspector General of the United States Agency for International Development.

Audit Plan means a plan, in accordance with the Audit Guidelines, for the audit of the expenditures of any Covered Providers, which audit plan, in the form and substance as approved by MCC, the Government shall adopt, or cause to be adopted, no later than sixty (60) days prior to the end of the first period to be audited.

Auditor means the auditor(s) as defined in, and engaged pursuant to, Section 3(h) of Annex I and as required by Section 3.8(d) of the Compact.

Auditor/Reviewer Agreement is an agreement between MCA-Cape Verde and each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable content of the applicable audit, review or evaluation and other terms and conditions such as payment of the Auditor or Reviewer.

Bank(s) means each individually and collectively, the National Bank and any bank holding an account referenced in Section 4(d)(iii) of Annex I.

Bank Agreement means an agreement between MCA-Cape Verde and a Bank, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to the Permitted Account.

Beneficiaries means the intended beneficiaries identified in accordance with Annex I.

CGAP means the Consultative Group for Assistance to the Poorest.

Chair means the Chair of the Steering Committee.

Civil Members means the representatives for the positions identified in Sections 3(d)(ii)(2)(A)(vi)-(ix) of Annex I designated to serve as voting members on the Steering Committee.

Compact means the Millennium Challenge Compact made between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Republic of Cape Verde.

Compact Goal means advancing economic growth and poverty reduction in Cape Verde.

Compact Goal Indicators are the Indicators that will measure the aggregation of estimated benefits of the three Projects, which is indicative of the overall impact from all of the Project Activities, as set out in the table at Section 2(a) of Annex III.

Compact Records shall have the meaning set forth in Section 3.8(b).

Compact Reports are any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties.

Compact Term means the term for which this Compact shall remain in force, which shall be the five (5) year period from the Entry into Force, unless earlier terminated in accordance with Section 5.4.

Covered Provider means (i) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD \$300,000 or more of MCC Funding in any MCA-Cape Verde fiscal year or any other non-United States person or entity that receives, directly or indirectly, USD \$300,000 or more of MCC Funding from any Provider in such fiscal year or (ii) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD \$500,000 or more of MCC Funding in any MCA-Cape Verde fiscal year or any other United States person or entity that receives, directly or indirectly, USD \$500,000 or more of MCC Funding from any Provider in such fiscal year.

Credit Activity is the Project Activity related to access to credit under the Watershed Project described in Section 2(c) of Schedule 1 of Annex I.

Designated Rights and Responsibilities shall have the meaning set forth in Section 3.2(c).

Detailed Financial Plan means the financial plans that specify respectively the annual and quarterly detailed budget and projected cash requirements for the Program (including monitoring and evaluation and administrative costs) and each Project, projected both on a commitment and cash requirement basis.

Disbursement Agreement is a Supplemental Agreement that MCC, the Government (or a mutually acceptable Government Affiliate and MCA-CV shall enter into that (i) further specifies the terms and conditions of any MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate) and of MCA-Cape Verde.

EIA means environmental impact assessment.

EIB means the European Investment Bank.

Emergency Management Plan means the Emergency Management Plan and Responses for Health and Safety (2004).

EMMP means an environmental management and monitoring plan.

EMP means the Environmental Management Plans.

ENAPOR means the current state entity that administers and operates the Port.

Entry into Force means the entry into force of this Compact which shall be on the date of the last letter in an exchange of letters between the Principal Representatives of each Party confirming that all conditions set forth in Section 4.1 have been satisfied by the Government and MCC.

Environmental Guidelines means the environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time.

ERR means economic rate of return.

ETS means Cape Verde's Economic Transformation Strategy which provides a long-term vision of building a globally competitive, services-oriented economy.

EU means the European Union.

Evaluation Component means the component of the M&E Plan that specifies a methodology, process and timeline for the evaluation of planned, ongoing, or completed Project Activities to determine their efficiency, effectiveness, impact and sustainability.

Exempt Uses means (i) any transaction, service, activity, contract, grant or other implementing agreement funded in whole or in part by MCC Funding; (ii) any supplies, equipment, materials, property or other goods (referred to herein collectively as "goods") or funds introduced into, acquired in, used or disposed of in, or imported into or exported from, the Republic of Cape Verde by MCC, or by any person or entity (including contractors and grantees) as part of, or in conjunction with, MCC Funding or the Program; (iii) any contractor, grantee, or other organization carrying out activities funded in whole or in part by MCC Funding; and (iv) any employee of such organizations.

Final Evaluation shall have the meaning set forth in Section 3(a) of Annex III.

Financial Plan means collectively, the Multi-Year Financial Plan and each Detailed Financial Plan, each amendment, supplement or other change thereto.

Financial Plan Annex means Annex II of this Compact, which summarizes the Multi-Year Financial Plan for the Program.

Financial Sector Reform Activity is the Project Activity related to financial sector reform under the Private Sector Development Project described in Section 2(b) of Schedule 3 of Annex I.

Fiscal Accountability Plan shall have the meaning set forth in Section 4(c) of Annex I.

Fiscal Agent shall have the mean set forth in Section 3(g) of Annex I.

Fiscal Agent Agreement is an agreement between MCA-Cape Verde and each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent.

"goods" refers to any supplies, equipment, materials, property or other goods.

Governance Agreement means the governance agreement entered into by the Government and MCA-Cape Verde, and at MCC's option, MCC, in a form and substance satisfactory to MCC.

Governing Document means any decree, legislation, regulation, contractual arrangement or other charter document establishing or governing MCA-Cape Verde.

Government means the Government of the Republic of Cape Verde.

Government Affiliate is an Affiliate, ministry, bureau, department, agency, government, corporation or any other entity chartered or established by the Government. References to Government Affiliate shall include any of their respective directors, officers, employees, affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives, and agents.

Government Members are the government members identified in Section 3(d)(ii)(A)(i)-(v) of Annex I serving as voting members on the Steering Committee, and any replacements thereof in accordance with Section 3(d)(ii)(A) of Annex I.

Government Party means the Government, any Government Affiliate, any Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, sub-contractors, grantees, sub-grantees, representatives or agents.

Government Responsibilities shall have the meaning set forth in Section 3.2(a).

GPRSP means the Growth and Poverty Reduction Strategy Paper published in 2004 by the Government.

Grand Options Plan means the program of economic development embarked upon by the Government in 2001.

IFC means the International Finance Corporation.

Implementation Letter is a letter that may be issued by MCC from time to time to furnish additional information or guidance to assist the Government in the implementation of this Compact.

Implementation Plan is a detailed plan for the implementation of the Program and each Project, which will be memorialized in one or more documents and shall consist of: (i) a Multi-Year Financial Plan; (ii) Detailed Financial Plans; (iii) Fiscal Accountability Plan; (iv) Procurement Plan; (v) Program and Project Work Plans; and (vi) M&E Plan.

Implementing Entity means a Government Affiliate, nongovernmental organization or other public- or private-sector entity or persons to which MCA-Cape Verde may provide MCC funding, directly or indirectly, through an Outside Project Manager, to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact.

Implementing Entity Agreement is an agreement between MCA-Cape Verde (or the appropriate Outside Project Manager) and an Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity.

Indicator Baseline means the value of an Indicator for a Project Activity and Objective prior to it being affected by the Program.

Indicators means the quantitative, objective and reliable data that the M&E Plan will use to measure the results of the Program.

Infrastructure Objective is an Objective of this Compact and means increase integration of the internal market and reduce transportation costs.

Infrastructure Project is the infrastructure project, and the Project described in Schedule 2 of Annex I, that the Parties intend to implement in furtherance of the Infrastructure Objective.

Inspector General means the Inspector General of the United States Agency for International Development.

Investment Guidelines shall have the meaning set forth in Section 2(a)(iii) of Schedule 3 of Annex I.

ITP means the Infrastructure and Transport Program.

Lien means any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind.

Local Account is an interest-bearing local currency of Cape Verde bank account at the National Bank to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account for the purpose of making Re-Disbursements payable in local currency.

M&E means Monitoring and Evaluation.

M&E Annex means Annex III of this Compact, which generally describes the components of the M&E Plan for the Program.

M&E Plan means the plan to measure and evaluate progress toward achievement of the Compact Goal and Objectives of this Compact.

Management Unit means the management team of MCA-Cape Verde to have overall management responsibility for the implementation of this Compact and further described in Section 3(d)(iii) of Annex I.

Managing Director means the Managing Director of MCA-Cape Verde.

Material Agreement shall have the meaning set forth in Section 3(c)(i)(5) of Annex I.

Material Re-Disbursement means any Re-Disbursement that requires MCC approval under applicable law, Procurement Agreement, the Governance Agreement, any Governing Document, or any Supplemental Agreement.

Material Terms of Reference means any terms of reference for the procurement of goods, services or works that requires MCC approval under applicable law, the Procurement Agreement, the Governance Agreement, any Governing Document, or any Supplemental Agreement.

MCA means the 2004 Millennium Challenge Account.

MCA-Cape Verde shall have the meaning set forth in Section 3(b) of Annex I and as is further described in Section 3(d) of Annex I.

MCA-Cape Verde Website means the website operated by MCA-Cape Verde.

MCA Eligibility Criteria means the MCA selection criteria and methodology published by MCC pursuant to Section 607 of the Act from time to time.

MCC means the Millennium Challenge Corporation.

MCC Disbursement means the disbursement of MCC Funding by MCC to a Permitted Account or through such other mechanism agreed by the Parties as defined in and in accordance with Section 2.1(b)(i).

MCC Disbursement Request means the applicable request that the Government and MCA-Cape Verde will jointly submit for an MCC Disbursement as may be specified in the Disbursement Agreement.

MCC Funding shall have the meaning set forth in Section 2.1(a).

MCC Indemnified Party means MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative.

MCC Representative is a representative designated by MCC to serve as an Observer on the Steering Committee.

MCC Working Group means the working group selected from the participants at a national consultation convened in Praia in May 2004, as described in Section 1(b) of Annex I.

MEAF means the Ministry of Environment, Agriculture and Fisheries.

MEGC means the Ministry for Economy, Growth and Competitiveness.

MFIs means micro-finance institutions.

MIT means the Ministry of Infrastructure and Transport.

Monitoring Component means the component of the M&E Plan that specifies how progress toward the Objectives and Project Activity Outcomes will be monitored.

Multi-Year Financial Plan means the multi-year financial plan for the Program and for each Project, which is summarized in Annex II to this Compact.

Multi-Year Financial Plan Summary means a multi-year Financial plan summary attached to this Compact as Exhibit A of Annex II.

Multi-Year Financial Plan Summary means a multi-year Financial plan summary attached to this Compact as Exhibit A of Annex II.

"national" means, for purposes of Section 2.3(e), organizations established under the laws currently or hereafter in effect in the Republic of Cape Verde, other than MCA-Cape Verde or any other entity established solely for purposes of managing or overseeing the implementation of the Program or any wholly-owned subsidiaries, divisions, or Affiliates of entities not registered or established under the laws currently or hereafter in effect in the Republic of Cape Verde.

National Bank means the Bank of Cape Verde.

Objective(s) are the following objectives of this Compact that have been identified by the Parties, each of which is (i) key to advancing the Compact Goal and (ii) described in more detail in the Annexes attached hereto: (a) the Watershed Management and Agricultural Support Objective, (b) the Infrastructure Objective and (c) the Private Sector Development Objective.

Objective Indicator means the Indicator for each Objective that will measure the final results of the Projects in order to monitor their success in meeting each of the Objectives. A table of Objective Indicator definitions is set forth at Section 2(b)(i) of Annex III.

Observers means the non-voting observers of the Steering Committee.

Officers shall have the meaning set forth in 3(d)(iii)(3) of Annex I.

Outside Project Manager means the qualified persons or entities engaged by the Management Unit, on behalf of MCA-Cape Verde, to serve as outside project managers in accordance with Section 3(d)(iii)(5) of Annex I.

Partnership to Mobilize Investment Activity is a Project Activity related to the partnership to mobilize investment under the Private Sector Development Project described in Section 2(a) of Schedule 3 of Annex I.

Parties means the United States, acting through MCC, and the Government.

Party means (i) the United States, acting through MCC or (ii) the Government.

PCO means the Program Coordination Office attached directly to the Office of the Minister, Ministry of Infrastructure and Transport.

PEP means IFC's Private Enterprise Partnership for Africa program.

Permitted Account(s) shall have the meaning set forth in Section 4(d) of Annex I.

Permitted Designee shall have the meaning set forth in Section 3.2(c).

PIU means the Government's project implementation unit for the World Bank's Growth and Competitiveness Project.

Pledge means any pledge of any MCC Funding or any Program Assets, or any guarantee directly or indirectly of any indebtedness.

Port means the Porto de Praia.

Port Activity is the Project Activity related to the upgrade and expansion of the Port of Praia under the Infrastructure Project described in Section 2(a) of Schedule 2 of Annex I.

Principal Representative means (i) for the Government, the individual holding the position of, or acting as, Minister of Finance and Planning of the Republic of Cape Verde, and (ii) for MCC, the individual holding the position of, or acting as, the Vice President for Country Relations.

Prioritized Activities are the prioritized IFC and unsolicited interventions or activities designed and/or evaluated in Phase II of the Partnership to Mobilize Investment Activity under Section 2(a)(iii) of Schedule 3 of Annex I.

Private Sector Development Project is a private sector development project, and the Project described in Schedule 3 of Annex I, that the Parties intend to implement in furtherance of the Private Sector Development Objective.

Procurement Agreement is a Supplemental Agreement between the Parties, which includes the Procurement Guidelines, and governs the procurement of all goods, services and works by the Government or any Provider in furtherance of this Compact.

Procurement Guidelines shall have the meaning set forth in Section 3.6(a).

Procurement Plan means a procurement plan adopted by MCA-Cape Verde, which plan shall forecast the upcoming six month procurement activities and be updated every six months.

Procurement Review Commission means the procurement review commission that reports to MCA-Cape Verde on procurements related to the Program and provides oversight of the operational procurement activities of MCA-Cape Verde (further described in Section 3(i) of Annex I).

Procurement Review Commission Agreement means the agreement between MCA-Cape Verde and Ministry of Finance and Planning, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Review Commission with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Review Commission.

Program means a program, to be implemented under this Compact, using MCC Funding to advance Cape Verde's progress towards economic growth and poverty reduction.

Program Annex means Annex I to this Compact, which generally describes the Program that MCC Funding will support in Cape Verde during the Compact Term and the results to be achieved from the investment of MCC Funding.

Program Assets means (i) MCC Funding, (ii) Accrued Interest, or (iii) any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part by MCC Funding.

Project(s) are the specific projects and the policy reforms, and other activities related thereto that the Government will carry out, or cause to be carried out in furtherance of this Compact to achieve the Objectives and the Compact Goal.

Project Activity means the activities that will be undertaken in furtherance of each Project.

Project Activity Outcome means outcomes of each Project Activity.

Project Activity Outcome Indicator means the Indicator for each of the Project Activities that will measure the intermediate results achieved under each of the Project Activities in order to provide an early measure of the likely impact of the Project Activities. A table of Project Activity Outcome Indicator definitions is set forth at Section 2(b)(ii) of Annex III.

Project Manager means the following Officers in the Management Unit: (i) Watershed Management and Agricultural Support Manager, (ii) Infrastructure Manager, and (iii) the Private Sector Development Manager.

Proposal is the proposal for use of MCA assistance submitted to MCC by the Government on August 10, 2004.

Provider means (i) MCA-Cape Verde and any other Government Affiliate or Permitted Designee involved in any activities in furtherance of this Compact or (ii) any third party who receives at least USD \$50,000 in the aggregate of MCC Funding (other than employees of MCA-Cape Verde) during this Compact Term or such other amount as the Parties may agree in writing, whether directly from MCC, indirectly through Re-Disbursements, or otherwise.

Re-Disbursement is the release of MCC Funding from a Permitted Account.

Regional Stakeholders' Committees means all then existing regional stakeholders' committees, comprised of non-governmental organizations, municipalities, farmers associations, and enterprises in the private sector.

Review Committee is a review committee that will be formed during Phase III of the Partnership to Mobilize Investment Activity as described in Section 2(a)(iii) of Schedule 3 of Annex I.

Reviewer shall have the meaning set forth in Section 3(h) of Annex I.

Road Maintenance Fund means the road maintenance fund to be created and function in accordance with the Transport Sector Letter, as described in Section 6(b)(i) of Schedule 2 of Annex I.

Roads and Bridges Activity means the Project Activity related to roads and bridges under the Infrastructure Project described in Section 2(b) of Schedule 2 of Annex I.

Selected Activity shall have the meaning set forth in Section 2(a)(iii) of Schedule 3 of Annex I.

SIGOF means the Government's existing government financial management system.

Special Account means a single, completely separate U.S. Dollar interest-bearing account at the Bank of Cape Verde to receive MCC Disbursements.

Stakeholders' Committee means a continued stakeholders' committee, such as the Stakeholders' Group, or a similar committee established in accordance with Section 3(e)(i) of Annex I.

Stakeholders' Group is a nationally representative committee established in October, 2004 to provide additional direction, feedback and oversight for the proposed MCA program.

Steering Committee means an independent steering committee to oversee MCA-Cape Verde's responsibilities and obligations under this Compact (including any Designated Rights and Responsibilities) and further described in Section 3(d)(ii) of Annex I.

STPC means the Strategic Transformation and Policy Center.

Strategic Programme is the Priority Strategic Programme for Infrastructure and Land Use Management that the Government formulated in 2003.

Supplemental Agreement is an agreement between (i) the Government (or any Government Affiliate or Permitted Designee) and MCC, (ii) MCC and/or the Government (or any Government Affiliate or Permitted Designee) and any third party, including any of the Providers or Permitted Designees, or (iii) any third parties where neither MCC nor the Government is a party, before, on or after the Entry into Force, which agreement memorializes details any funding, implementing and other arrangements in furtherance of this Compact.

Supplemental Agreement between the Parties means any agreement between MCC on the one hand, and the Government or any Government Affiliate or Permitted Designee on the other hand.

Supplemental Agreement Term Sheets means one or more term sheets that the Government (or mutually acceptable Government Affiliate) and MCC shall execute that set forth the material and principal terms and conditions of each of the Supplemental Agreements identified in Exhibit B attached hereto.

Target means one or more expected results that specify the expected value and the expected time by which that result will be achieved.

Tax(es) shall have the meaning set forth in Section 2.3(e)(i).

Transport Sector Letter means the Government's Letter of Transport Sector Policy.

U.S. Government shall mean any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.

United States Dollars (USD) means the currency of the United States of America.

Water Management Activity is the Project Activity related to water management and soil conservation under the Watershed Project described in Section 2(a) of Schedule 1 of Annex I.

Watershed Areas are the three rural intervention watershed areas: (i) Ribeira Paul on the island on Santo Antão; (ii) Mosteiros on the island of Fogo; and (iii) Ribeira Fajã on the island of São Nicolau.

Watershed Management and Agricultural Support Objective is an Objective of this Compact and means to increase agricultural production in the intervention zones.

Watershed Project is the watershed management and agricultural support project, and the Project described in Schedule 1 of Annex I, that the Parties intend to implement in furtherance of the Watershed Management and Agricultural Support Objective and a Project.

Work Plans means work plans for the overall administration of the Program and for each Project.

World Bank Road Sector Support Project is a project where several donors, notably the World Bank, Portugal and the EU, are financing selected priority investments, with the World Bank playing a leading role in supporting institutional reforms in road sector management and maintenance.

EXHIBIT B
LIST OF CERTAIN SUPPLEMENTAL AGREEMENTS

1. Governance Agreement
2. Form of Fiscal Agent Agreement
3. Form of Implementing Entity Agreement
4. Form of Bank Agreement

ANNEX I

PROGRAM DESCRIPTION

This Annex I to the Compact (the "*Program Annex*") generally describes the Program that MCC Funding will support in Cape Verde during the Compact Term and the results to be achieved from the investment of MCC Funding. Prior to any MCC Disbursement or Re-Disbursement, including for the Projects described herein, MCC, the Government (or a mutually acceptable Government Affiliate) and MCA-Cape Verde shall enter into a Supplemental Agreement that (i) further specifies the terms and conditions of such MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (or in the case of the Government, the principal representative of the applicable Government Affiliate) and of MCA-Cape Verde (the "*Disbursement Agreement*").

Except as specifically provided herein, the Parties may amend this Program Annex only by written agreement signed by the Principal Representative of each Party. Each capitalized term in this Program Annex shall have the same meaning given such term elsewhere in this Compact. Unless otherwise expressly stated, each Section reference herein is to the relevant Section of the main body of the Compact.

1. Background and Cape Verde Development Strategy; Consultative Process.

(a) Background and Cape Verde Development Strategy.

Since gaining its independence from Portugal in 1975, Cape Verde has achieved an annual growth rate of approximately six percent. This growth has resulted in impressive socio-economic gains in such areas as literacy rates, educational attainment, life expectancy, and per-capita income (which has increased from USD \$200 to USD \$1,485). Despite these achievements, Cape Verde continues to have high levels of poverty and unemployment. Further, income disparities are increasing between men and women and between urban and rural populations, as illustrated by the fact that approximately 40% of the rural population lives in poverty. The persistence of poverty can be partly attributed to the fact that Cape Verde is challenged by a relative lack of obvious economic growth opportunities and a scarcity of resources, particularly water. Only 10% of the land is arable and a short rainy period, marked by torrential downpours, results in roughly 83% of rainfall being lost through evaporation and runoff. Agricultural productivity is low; therefore, approximately 85% of the country's food is imported (70% of which is in the form of food aid). In addition, Cape Verde suffers from adverse cost competitiveness owing to geographic discontinuity and a small population (450,000 people spread over nine inhabited islands), which result in redundant capital costs, high factor costs of production, and a lack of economies of scale.

Cape Verde's strong record of democratic governance, stability, transparency, and lack of corruption has allowed the country to maintain large inflows of foreign assistance and remittances from émigrés, which together represent roughly 25% of GDP. These financial flows have sustained the country's economic progress since independence. However, given that foreign assistance and remittances are likely to decline in the future, Cape Verde has designed an economic development strategy to move the country from an aid-dependency model of development to one of self-sustaining private-sector led growth. Given the constraints in other sectors resulting from the country's geography and small population, sectors such as tourism,

financial services, transportation and fisheries are expected to serve as future engines of Cape Verde's growth. In order to achieve the goal of developing these target sectors, large investments must be made in strengthening human resources and upgrading infrastructure, together with relevant policy reforms to improve the investment climate.

Cape Verde's post-independence history can be divided into three periods. The first was characterized by an interventionist state that played a dominant role in the productive sectors; the second, by economic and political liberalization, marked by pluralism and multi-party democracy; while the third represents an ongoing attempt to develop a sustainable economy, based on a competitive private sector. The third phase began in 2001, when the Government – in consultations with the civil society and the private sector – embarked on a program of economic development (the "*Grand Options Plan*"). The outcome of a six-month exercise, the Grand Options Plan is based on the principles of good governance, private sector-led growth, human capital strengthening, and infrastructure development, and was designed to provide an overall guiding framework for the more specific national development planning efforts in Cape Verde.

An important achievement in the evolution of Cape Verde's economic development strategy occurred in 2004, when the Government published a Growth and Poverty Reduction Strategy Paper ("*GPRSP*"). The GPRSP is consistent with the principles articulated in the Grand Options Plan, further defines public investment priorities, and is based on the following five strategic pillars:

- Promote good governance that reinforces effectiveness and guarantees fairness;
- Promote competitiveness to favor economic growth and employment creation;
- Develop and upgrade human capital;
- Develop infrastructure, promote land use planning and protect the environment; and
- Improve effectiveness and sustainability of the social protection system.

Described as "fully participatory" by the IMF/World Bank Joint Staff Assessment, the GPRSP is a comprehensive policy for social development that is being supported by the World Bank with a Poverty Reduction Support Credit.

Another milestone was Cape Verde's increased focus on private sector development through the preparation of an Economic Transformation Strategy ("*ETS*"), which provides a long-term vision of building a globally competitive, services-oriented economy. The key elements of the ETS include:

- Developing a high value-added tourism/ecotourism sector;
- Building upon Cape Verde's geographic location to become a gateway for cargo and passenger transportation and air traffic-control services;
- Developing its information technology and services industries to provide financial and back-office services to the Lusophone and African markets; and
- Processing and marketing of fish and seafood for export.

In the short term, the ETS seeks to expand upon effective programs to enhance the capacity of the poor to invest in drip irrigation and other productive activities that have successfully raised agricultural outputs and rural incomes.